

RD AN No. 3506 (4279-B)  
January 13, 2000

SUBJECT: Business and Industry Guaranteed Loan Program  
Feasibility Studies

TO: State Directors, Rural Development

ATTN: Business Programs Directors

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Administrative Notice (AN) is to provide guidance and clarification regarding the importance of a properly completed feasibility study. Furthermore, guidance will be given as to when a feasibility study should be required as provided under RD Instruction 4279-B, section 4279.150. The General Accounting Office (GAO) conducted a study of Business and Industry (B&I) Guaranteed Loans for which losses were paid during Fiscal Years 1994 through 1998. GAO found that, of the 24 borrowers selected for the study, the Agency did not follow regulatory requirements on 18 borrowers; and 11 of these 18 were missing feasibility studies. As a result, the Agency agreed to provide guidance and training to field offices administering the B&I Guaranteed Loan Program and agreed to rewrite its program instructions to clarify when feasibility studies would be required.

**COMPARISON WITH PREVIOUS AN:**

No previous AN has been issued on this subject.

**IMPLEMENTATION RESPONSIBILITIES:**

On August 3-4, 1999, nationwide training was provided to Rural Development State staffs to differentiate between a business plan and a feasibility study. A business plan, which may be prepared by the business itself, is a plan of all phases of a business' operation.

EXPIRATION DATE:  
January 31, 2001

FILING INSTRUCTIONS:  
Preceding RD Instruction 4279-B

A feasibility study, which must be prepared by an independent outside consultant, is an evaluation of the chances of success in terms of economic, market, technical, financial, and management feasibility. RD Instruction 4279-B, Appendix A, contains important guidance to Agency personnel as to what constitutes an acceptable feasibility study. A copy of an acceptable feasibility study was distributed at the August training session as a guide for evaluation of such studies that accompany B&I Guaranteed Loan applications. Copies of that sample feasibility study are available upon request to the Business Programs Processing Division Director.

RD Instruction 4279-B, section 4279.150, gives the Agency flexibility in deciding when a feasibility study may be required. It is strongly suggested that one be obtained on all startups, on existing businesses entering a new market area, and on existing businesses where the loan will result in a significant expansion of the business' current operations. Careful evaluation of submitted feasibility studies before making lending decisions can help reduce incurred losses.

If you have any questions, please contact the Business Programs Processing Division, (202)690-4100.

**Signed by Dayton J. Watkins**

DAYTON J. WATKINS  
Administrator  
Rural Business-Cooperative Service